

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

THE MAGNAVOX COMPANY, and
SANDERS ASSOCIATES, INC.

Plaintiffs

v.

APF et al.,
Bally et al.,
Montgomery Ward, et al.,
K mart Corporation,
and Mattel, Inc., et al.,

Judge John Powers Crowley

Civil Action No. 77 C 3159 ✓
Civil Action No. 78 C 4951 ✓
Civil Action No. 78 C 5041 ✓
Civil Action No. 80 C 2409 ✓
Civil Action No. 80 C 4124 ✓

MEMORANDUM IN SUPPORT OF MATTEL et al.'s SECOND
MOTION TO COMPEL PRODUCTION OF DOCUMENTS AND THINGS

The present Motion to Compel concerns documents and things wrongfully withheld by plaintiffs from production to the MATTEL et al. defendants.

The undersigned counsel for defendants personally consulted with counsel for plaintiffs in an attempt to resolve the differences, but could not reach an accord.¹

The Documents were Properly Requested

On October 8, 1980, defendants formally requested plaintiffs to produce documents and things which correspond

¹The consultation occurred on December 24, 1980 from 10:00 a.m. to 11:15 a.m. at the offices of Cook, Wetzel & Egan, Ltd. Granger Cook, Jr. and Edward D. Manzo participated as counsel for defendants and James T. Williams participated as counsel for plaintiffs. Consultations continued and included a letter of January 23, 1981 from Mr. Williams to Mr. Cook and a subsequent telephone conversation between Mr. Cook and Mr. Williams

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to the categories identified in the present Motion, i.e., Request Nos. B-1(g), 1(m), 1(o), 1(p), 1(r), 1(u), 1(v), 1(y) 1(aa), 1(ab), 1(ac), 1(ad), 1(af), 1(ag), 1(ah) and C (see Exhibit 1). Plaintiffs have not disputed that the documents and things were properly requested.

Plaintiffs did object to the definition of "video games" as stated in the Request.¹ Defendants will show that this definition of "video games" as applied to the requests to produce will allow defendants to have discovery of documents and things within the scope of Rule 26 (b)(1).

Defendants have Valid Bases for Discovery of the Requested Documents and Things

The production requests generally relate to validity of the patent-in-suit, e.g., the prior art under 35 U.S.C. §§102, 103² and the alleged commercial success of the patented alleged invention, relevant to the obviousness issue, Republic Industries, Inc. v. Schlage Lock Co., 592 F.2d 963, 975-76 (7th Cir. 1979). These validity issues of prior art and commercial success are proper areas of inquiry in pretrial discovery. Carter Products,

¹As defined in the Request (Exhibit 1), a "video game" is, "any device or circuit adapted to be used in connection with a viewing screen or tube for displaying at least two symbols on such screen or tube for game or non-game purposes."

²35 U.S.C. §§102, 103 are shown in Exhibit 2.

Inc. v. Eversharp, Inc., 360 F.2d 868 (7th Cir. 1966); General Telephone & Elec. Lab's Inc. v. National Video Corporation, 297 F.Supp. 981, 984 (N.D. Ill. 1968); Struthers Scientific and International Corp. v. General Foods Corp., 35 F.R.D. 375, 380 (S.D. Tex. 1968); Vernay Laboratories v. Industrial Electronic Rubber Co., 234 F.Supp. 161, 165 (N.D. Ohio 1964).

Further, the production requests relate to interpretations by Magnavox, Sanders and others of the scope of the patent-in-suit. The Seventh Circuit has long followed the rule that courts should consider statements by an inventor or patent owner in considering the validity and scope of a patent. Wright Aeronautical Corp. v. General Motors Corp., 166 F.2d 636, 642 (7th Cir. 1948). Accord, Canadian Ingersoll-Rand Co., v. Peterson Products, 350 F.2d 18, 25 (9th Cir. 1965); Jungersen v. Baden, 166 F.2d 807, 809 (2nd Cir. 1948), aff'd, 335 U.S. 560; Timken Detroit Axle Co., v. Cleveland Steam Products Corp., 148 F.2d 267, 270 (6th Cir.), cert. denied, 326 U.S. 725 (1945); Enterprise Railway Equipment Co. v. Pullman Standard Car Manufacturing Co., 95 F.2d 17, 21 (7th Cir. 1938); 4 Deller's Walker on Patents §228 at 76-77 (2nd ed. 1965). Such statements or interpretations are found often in licensing documents. See Components, Inc. v. Western Electric Co., Inc., 52 F.R.D. 379 (D. Me. 1971); Kearney & Trecker v. Giddings and Lewis, 296 F.Supp. 979 (E.D. Wisc. 1969).

Some of the requests relate to the antitrust counterclaims. Briefly, those counterclaims relate to the use of the

leverage of the patent to: (1) reduce competition and restrain trade unreasonably in the Console Submarket and elsewhere; (2) extend the scope of the patent unlawfully to staple articles of commerce which do not infringe the patent-in-suit thereby unreasonably to restrain trade in computer-based, programmable console apparatus; (3) reduce competition and restrain trade unreasonably in the business of manufacturing or assembling television game apparatus; and (4) restrain trade unreasonably in video game commerce by refusals to deal with prospective licensees on non-discriminatory terms. This Court has denied plaintiffs' Motion for Stay of Discovery and Separate Trial of Antitrust and Misuse Issues. Several of the outstanding requests seek discovery relevant to such antitrust issues, and hence are relevant.

The documents and things for which production is sought to be compelled by the present motion are relevant to the subject matter involved in the pending action. Alternatively, the requested documents are reasonably calculated to lead to the discovery of admissible evidence. The definition of "video game" is intended to give broad discovery to defendants MATTEL et al. on the issues of validity, prior art, commercial success, infringement, and antitrust issues. The definition used by MATTEL et al. in the Request is as follows:

"As used herein the term 'video game' refers to any device or circuit adapted to be used in connection with a viewing screen or tube for displaying at least two symbols on such screen or tube for game or non-game purposes."

The patent-in-suit relates to apparatus for displaying two symbols on the screen of a television receiver, for determining whether the two symbols coincide, and for imparting a distinct motion to one of the symbols upon coincidence. Defendants MATTEL et al. contend that the patent claims are invalid because they are anticipated or obvious due to prior art. Further, defendants MATTEL et al. contend that the accused INTELLIVISION product is based upon prior art teachings. Consequently, MATTEL et al are entitled to explore fully the prior art in pre-trial discovery.

The prior art necessarily includes, without limitation, apparatus for displaying two relatively movable symbols on a screen or tube. For example, the prior art includes prior television simulators such as U.S. Patent No. 3,135,815 to Spiegel which teaches apparatus for displaying two symbols on the screen of a television receiver, manipulating the position of at least one of those symbols, and determining whether the two symbols are coincident. The prior art also includes computer demonstrations such as the simulated pool games played by an RCA computer in the 1960's and by the MIDSAC computer in the 1950's. Those demonstrations showed symbols representing pool balls on the screen of a cathode ray tube display device. The computer determined whether the pool balls coincided and imparted a distinct motion to them upon coincidence. These prior art patents and developments are within the defendant MATTEL et al.'s definition of video game, and are relevant prior art of the type which should be produced.

Plaintiffs contend that the definition of a "video game" is overly broad and causes the ensuing Requests to include documents which are neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. Plaintiffs have indicated that they would be willing to adopt MATTEL's definition if it uses the proviso,

"...for displaying at least two symbols, one of which is a hitting symbol and one of which is a hit symbol, on such screen..." (emphasis added)

The modified definition of "video game" is overly restrictive. The proviso of the revised definition would remove important prior art from the scope of the Request. For example, due to the proviso, the Spiegel patent probably would not be produced by plaintiffs because they contend, upon belief, that it does not include "hit" and "hitting" symbols. Spiegel, however, clearly is relevant to prior art and should be within the scope of the Requests.

With respect to the commercial success issue, the definition of "video game" will allow defendants to have discovery of many television games, which upon belief were also commercially successful. Upon proof of that condition, the alleged commercial success of the patented alleged invention would not be attributed to the alleged invention. Hence these documents are relevant or will lead to admissible evidence. Rule 26(b)(1) specifically entitles defendants to have discovery of such documents and things.

However, if the revised definition of "video game" is used, then MATTEL et al. will have pre-trial discovery of television video games only which are allegedly within the scope of the patent-in-suit. Under the proviso, MATTEL et al. would not have discovery of the commercial success of television video games which are not alleged to infringe the patent-in-suit. It is important that MATTEL et al. have the opportunity to explore fully the commercial success of games within the scope of the patent-in-suit as compared to television games outside the scope of the patent-in-suit. Consequently, the revised definition of video games is overly restrictive also when applied to the commercial success issue, and MATTEL et al.'s definition is proper.

The relevance of each particular category of documents or things to be produced will be demonstrated infra in the order raised in the accompanying Motion.

Each of Defendants' Requests is Within the Scope of Rule 26(b)(1)

1. The first category of documents sought to be produced relates to

"(g) the first date of (i) manufacture, (ii) use, (iii) sale, and (iv) offer to sell each of plaintiffs' different type of video game.

These documents are relevant because video games are within the scope of the patent-in-suit, e.g. Claim 51 of Reissue Patent No. 28,507 ("Apparatus for generating symbols..."). The requested

documents relate to prior art defenses under 35 U.S.C. §102 (a), (b), (c), (f) and (g) because such prior art may invalidate the patent. Also, the documents may lead to the discovery of admissible evidence on the subject of alleged commercial success of the patent.

2. Second, production is sought to be compelled of documents of the following category:

"(m) The design, construction, or operation of any video game of third parties charged to infringe the patent-in-suit."

These documents relate to the scope of the patent-in-suit and positions taken by plaintiffs with respect thereto. Plaintiffs have not challenged the relevancy of this category.

3. Third, production is requested of documents in the following categories:

"(o) Any sales, lease, purchase, distribution or promotion agreement between plaintiffs and third parties which in any way relates to the sale, purchase, promotion, lease or distribution of a video game.

"(p) Representative samples of any standard lease, sale, purchase, or distribution agreements between plaintiffs and any user, purchasers, lessees, distributors or promoters of a video game."

Contrary to plaintiffs' contention, these documents are within the scope of Rule 26. Defendants' first counterclaim involves restrictions by plaintiffs imposed on sublicensees under the patent-in-suit against competition in certain submarkets. The requested documents are expected to contain evidence of such documents may lead to the discovery of admissible evidence of unlawful tie-ins, allocation of markets, price restrictions, predatory practices, or other activities which violate the

~~Plaintiffs' Motion to Compel Production of Documents~~ first counterclaim.

4. Fourth, production is sought to be compelled of documents in the following category:

"(r) Any offer by plaintiffs of a license under the patent-in-suit, any requests by third parties for such a license, and any response to such requests by the plaintiffs."

These licensing documents plainly are relevant because they may demonstrate interpretations of the scope of the patent-in-suit by third persons. Further, this category of documents is closely allied with a prior motion by defendants to compel production of licensing documents.¹

5. Fifth, production is sought to be compelled of documents of the following categories:

"(u) Each video game of any kind developed by or for plaintiffs since 1964.

"(v) Each video game of any kind known to plaintiffs."

Plaintiffs challenge the relevancy of these documents.

The documents fall into two time divisions, both of which are within the scope of Rule 26(b)(1). The first category relates to pre-May 27, 1969, the effective filing date of the patent-in-suit. These documents may demonstrate prior knowledge, use, sale, abandonment or prior conception by another under 35 U.S.C. §102.

The second time division includes documents which relate to activity subsequent to May 27, 1969. Such documents

¹See defendants' Motion to Compel Production of Documents filed February 10, 1981.

are relevant to the alleged commercial success of television games embodying the patented alleged invention. Without knowing the structure and mode of operation particularly of the several television video games developed by or for Magnavox, Sanders or others, defendants cannot fully explore the alleged commercial success issue.

Also, these documents relate to the issue of the scope of the patent-in-suit because they may lead to interpretation by Sanders and/or Magnavox on whether the claims read on various television video games such as have been made by other game manufacturers.

6. Sixth, production is sought to be compelled of the following category:

"(y) Marketing policies, plans, targets and pricing policies from fiscal year 1969 to date relating to (i) video games, (ii) console television receivers for consumer use of sale, (iii) sales objectives of video games and console television receivers, (iv) pricing policy, and gains and losses in licensing patents relating to video games, and (v) sales summaries and forecasts for video games."

Clearly such documents are relevant to the counterclaims raised by defendants. For example, defendants charge that plaintiffs have used the leverage of U.S. Patent Reissue No. 28,507 unreasonably to restrain trade in the TV game market and the Console Submarket and otherwise to violate the Antitrust Laws, including Sections 1 and 2 of the Sherman Act. The requested documents relate to the intent to dominate the TV game market, to exclude competition from a particular submarket, to collect royalties on unpatented products and to discriminate in royalty

rate against potential licensees and new entrants to the field of competition.

7. Seventh, production is sought to be compelled of documents in the following category:

"(aa) Acquisition of any entity, or portion thereof having any involvement with video games."

Such documents are within the scope of Rule 26(b)(1) because they may lead to the discovery of unlawful acquisition or mergers by one competitor, Magnavox, its subsidiaries or its parent(s) which may substantially lessen competition in the effective market or submarket or tend to create a monopoly in violation of Section 7 of the Clayton Act.¹ generally alleged by defendants in paragraph 12 of their first counterclaim. Hence, defendants are entitled to discover any evidence of unlawful acquisitions, i.e., horizontal or vertical mergers, of competitors in an industry where a small number of competitors appear to control a large segment of the market. Magnavox, one of the counterclaim-defendants herein appears to have a relatively significant share of the

¹Section 7 (2nd Para.) of the Clayton Act, 15 U.S.C. §18 provides as follows: "No corporation shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of one or more corporations engaged in commerce, where in any line of commerce in any section of the country, the effect of such acquisition, of such stocks or assets, or of the use of such stock by the voting or granting of proxies or otherwise, may be substantially to lessen competition, or to tend to create a monopoly."

television game market, and therefore any acquisition by it of competitors is so inherently likely to lessen competition substantially that the acquisition must be held to be unlawful, in the absence of evidence that the acquisition would not substantially lessen competition. United States v. Philadelphia National Bank, 374 U.S. 321, 10 L.Ed. 2d 915 (1963).

8. Eighth, production is sought to be compelled of documents in the following category:

"(ab) Allegations of infringement of the patent-in-suit or any other of plaintiffs' patents relating to video games."

Such documents clearly are relevant to positions taken by plaintiffs as to the scope of the patent-in-suit. The licensing program by plaintiffs has an obvious relationship to the scope of the patent-in-suit, and discovery into this relevant area is appropriate.

9. Ninth, production is sought to be compelled of documents in the following category:

"(ac) Legal proceedings to enforce the patent-in-suit or other of plaintiffs' patents relating to video games, including all documents produced by any party during the lawsuit."

Defendants have pleaded in their counterclaim that plaintiffs have instituted legal proceedings to enforce the patent-in-suit against various manufacturers. Documents produced in such litigations obviously are relevant to the present action. Such documents include depositions of the alleged inventor and his colleagues, and depositions of persons having knowledge of prior art.

10. Tenth, production is sought to be compelled of documents of the following category:

"(ad) Evaluations of the value of the patent-in-suit and its value relative to other patents relating to video games."

Plaintiffs assert that such documents are neither relevant, nor do any such documents exist.

First, such documents plainly are within the scope of Rule 26(b)(1) because they reveal the monetary value of a license under the patent-in-suit alone and compared to other patents in the television game industry. This clearly relates to the damages aspect of plaintiffs' claim against defendants.

The allegation that no such documents exist is apocryphal: the very license agreement which plaintiffs seek to impose upon defendants is one example of a document showing a royalty rate under the patent, and as such, the license agreement is an "evaluation of the value of the patent-in-suit." Certainly documented decisions were made as to the royalty rate sought to be collected by plaintiffs. Other documents must exist which have been generated by third parties, such as correspondence discussing the royalty rate under the patent-in-suit relative to other patents relating to television games.

11. Eleventh, production is sought to be compelled of documents in the following category:

"(af) Proposed or actual assembly by Magnavox of electrical components into all or a part of a video game for other companies,

including Mattel, a representative sample of related advertising, if any, and all related correspondence and billing, but excluding detailed work orders."

Such documents relate to defendants' third counterclaim which pleads that plaintiffs offered to license defendants at varying rates, depending upon whether Mattel would engage plaintiff to perform assembly work in the manufacture of television game apparatus. Consequently, it is likely that Magnavox made such offers to other companies. The manifest purpose of this licensing policy is to enhance plaintiffs' position in the business of manufacturing or assembling television game apparatus, and the effect of such policy may be substantially to lessen competition, unreasonably restrain trade or tend to create a monopoly in the business of assembling television game apparatus, in violation of the Sherman and Clayton Acts.

12. Twelfth, production is sought to be compelled of documents in the following category:

"(ag) The identities and addresses of all distributors of Magnavox video games and/or console television receivers whose distributorship was terminated since 1972 and the reasons therefor."

Such documents clearly relate to efforts by Magnavox to monopolize or at least to lessen competition in the field of video games. Cancellation of distributors who deal with companies such as Mattel who market products which require no license under the patent-in-suit would be plain evidence of the predatory intent by plaintiffs to expand unlawfully the scope of protection to which the patent-in-suit is entitled, if any.

Additionally, such cancellations are evidence of damage to defendants. Defendants must be permitted to explore fully the cancellation of distributorships by Magnavox to determine whether such actions were taken in violation of the Antitrust Laws, as pleaded in defendants' counterclaims.

13. Thirteenth, production is sought to be compelled of documents in the following category:

"(ah) Plaintiffs' actual and/or projected market share of the video game industry, including market share for individual game units and consoles, for each year since 1971."

Such documents relate to plaintiffs' market share for the television video game industry, which clearly has a bearing on the antitrust counterclaims pleaded by defendants. Market shares are relevant to monopolization, attempts to monopolize, and unlawful acquisitions whose affect may be to tend to monopolize or tend to reduce competition, in violation of the Sherman and Clayton Acts. Defendants have pleaded various specific violations of the Antitrust Laws and have generally pleaded that plaintiffs have violated the Antitrust Laws. Market shares were specifically pleaded in the first counterclaim, and defendants are therefore entitled to explore the documents prohibitive of such issues.

Documents relating to projected market shares also are within the scope of Rule 26(b)(1) because they relate to the effect or anticipated effect on commerce of activities which will help this Court in ruling on the antitrust violations which have been alleged. The effect on commerce and the preservation

of competition is the paramount concern of the Antitrust Laws. Consequently, such documents are of paramount concern and should be produced.

14. Fourteenth, production is sought to be compelled of the following physical things:

"C. Description of Physical Things

"The physical things to be produced are at least one of all present and prior forms of "video game" developed, manufactured, used and/or sold by or for "plaintiffs."

Although plaintiffs initially objected to the relevancy of such things, plaintiffs agreed to produce specimens of present and prior forms of television games manufactured and sold by Magnavox. This offer is too narrow: defendants are entitled to specimens of television games developed, manufactured, used or offered for sale by Magnavox or Sanders.

This request is within the scope of Rule 26(b)(1) because it relates to defenses under 35 U.S.C. §102 of prior knowledge, use, sale, abandonment, and alleged invention. Second, such evidence goes to the validity issue of commercial success which was raised by plaintiffs in the prior litigation. The commercial success of television games which are not within the scope of the patent-in-suit would be evidence that the patented alleged invention is not responsible for the commercial success. The structure of any items which in fact were commercially successful must be determined in order to verify that such items are properly within the scope of the patent-in-suit.

Plaintiffs' Confidentiality Objection
Must be Overruled

Plaintiffs have objected to production of many documents on the basis of alleged "confidentiality." However, this Court has granted Plaintiffs' Motion for a Protective Order. Such Protective Order will adequately protect any confidential documents and things. Hence, the confidentiality objections should be overruled.

Identification of Privileged Documents
Should be made Without Further Delay

On November 10, 1980, plaintiffs indicated in their Response to defendants' Request to Produce (Request E) that they would identify privileged documents. Such identification has not been made, despite the passage of over four months. The Court should order identification to be made within seven days in accordance with Request E.

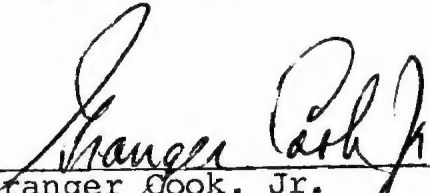
Conclusion

The requested documents and things are relevant to the subject matter of Magnavox et al. v. Mattel et al., 80 C 4124 and other actions, or reasonably calculated to lead to the discovery of admissible evidence. As such, Mattel et al. and the other defendants are entitled under Rule 26(b)(1) to have discovery of them.

Plaintiffs' objections on the basis of confidentiality should be overruled because they have not submitted evidence to meet the burden of proof for issuance of a protective order.

Documents and things withheld from production on the basis of alleged privilege should be identified in accordance with MATTEL et al. Request E without further delay.

Respectfully submitted


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CERTIFICATE OF SERVICE

I hereby certify that two copies of the foregoing NOTICE OF MOTION, MATTEL et al.'s SECOND MOTION TO COMPEL PRODUCTION OF DOCUMENTS AND THINGS and MEMORANDUM IN SUPPORT OF MATTEL et al.'s SECOND MOTION TO COMPEL PRODUCTION OF DOCUMENTS AND THINGS were served on counsel for plaintiffs as identified below by hand delivery prior to 4:00 p.m. to their offices:

Theodore Anderson, Esq.
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On this 26th day of March, 1981

Edward D. Menzo